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The Manufacturers Hanover
Financial Digest
Weekly Commentary, Selected Financial Data, and Business Indicators

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Good News From The Federal Reserve . . .

The recently announced money supply growth targets for 1981 demonstrate once again the Federal Reserve's determination to curb the growth of the monetary aggregates and, in so doing, align more closely overall demand for goods and services with the economy's capacity to produce them. Although the central bank basically reaffirmed its previously-cited intention to reduce the upper and lower target ranges for both M-1A and M-1B by one-half percentage point in 1981, substantial adjustments had to be made to the target ranges in light of the nationwide introduction of interest-bearing checking, or NOW, accounts. Despite these adjustments, however, the basic thrust of monetary policy remains the same—slowing money supply growth and, ultimately, the rate of inflation. But whether such a policy stance can be maintained against a backdrop of a rapidly deteriorating Federal government financial position without severely destabilizing the financial markets, is uncertain.

Specifically, the growth of M-1A is to be held within a minus 4.5 to minus 2.0 per cent band while the growth targets for M-1B range from 6.0 to 8.5 per cent, after adjustment of the target ranges for the upsurge in NOW accounts outstanding. While the new target boundaries are somewhat more restrictive than those monitored in 1980, the sharp deceleration of money supply growth which has occurred in recent months has left the Fed well-positioned to meet successfully its new targets without further monetary restraint.

Since the beginning of the year, for example, M-1A has dropped by more than $13 billion, or at an approximately 20 per cent annual rate compared with its fourth quarter, 1980 average. Although M-1B has increased by slightly more than $7.0 billion during the year to date, this represents a very modest 3.1 per cent annual rate of rise since the fourth quarter, 1980. What is more, the relatively sluggish growth of M-1B has occurred against the backdrop of a more than $20 billion bulge in other checkable deposits outstanding (primarily NOW accounts). Clearly, in the absence of the nationwide introduction of NOW accounts, M-1B would probably be collapsing and speculation rampant as to the timing of a significant easing of monetary policy.

. . . But Bad News From The Government

As a result, money supply growth since the beginning of the year has been well below the new minimum targets, facilitating a gradual easing of monetary policy and an almost 4½ percentage point dip in the average Federal funds rate. Unfortunately, the success of the Federal Reserve in restraining money supply growth has not been paralleled by similar improvements in Federal government finances. In January, 1981, expenditures exceeded revenues by $6.9 billion—almost $2.5 billion larger than the January, 1980 deficit. This brought the fiscal year to date red ink total to more than $40 billion, $11.5 billion higher than the comparable fiscal 1980 period. Indeed, if these trends persist, the budget deficit for the fiscal year as a whole will surpass $82 billion, almost $30 billion higher than the fiscal year 1981 deficit currently being projected by the Administration.

Consequently, the gradual easing of short-term interest rates is not expected to proceed either too much further or too much longer. Massive Federal government borrowing requirements will continue to conflict with the efforts of the monetary authorities to restrain money supply growth, providing a significant prop under domestic interest rates. Once again, and in what is becoming an all-too-familiar scenario, the hemorrhage of red ink from Washington will clash with the efforts of the Fed to curb the rate of inflation, a conflict which may well lead to even higher interest rates than before.

Last Year's Export Performance . . .

After a very strong year for American exports in 1980, many exporters are wondering if they can do it again. Slow growth in the economies of our major trading partners and a strong dollar are potent obstacles to improving our export picture. Further, high inflation and rapidly rising raw materials costs (decontrolled domestic oil, for example) are eroding our trade competitiveness.

Although dominated by exports of capital goods, the pattern of U.S. exports is very broadly based both in terms of the wide range of commodities and products exported and by the geographic dispersion of our export markets. Last year's 22 per cent

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growth in total exports was in part attributable to large increases in exports of agricultural commodities. Agricultural exports reached almost $42 billion in 1980 from about $35 billion in 1979. This 20 per cent jump occurred in spite of the partial embargo on grain shipments to the Soviet Union. Non-agricultural exports rose by 22 per cent, led by machinery, chemicals, metals and wood products.

Preliminary figures indicate that our trade surplus with Western Europe jumped from $12 billion in 1979 to $20 billion last year. U.S. trade with the non-oil exporting less-developed countries (LDCs) shifted from a deficit of $3 billion in 1979 to a surplus of $3 billion in 1980. Although trade with the U.S.S.R. fell rapidly as grain shipments were curtailed, it rose with other Eastern Bloc countries. On the other hand, in spite of increased exports, U.S. trade deficits with Canada and Japan, two of our most important trading partners, increased by $500 million and $1.6 billion respectively.

There are a number of reasons for the success of U.S. export trade in 1980. Not the least of these was that the economies of most of our trading partners were still expanding, at least in the first half of the year, as the U.S. economy was declining steeply. But the strengthening dollar was the major contributor to U.S. export growth by improving export prices in terms of most other currencies. The dollar

Selected Federal Reserve Data

(Averages of Daily Figures—Billions of Dollars)

	Week Ending 2/18/81	$ Change Since Week Ago	$ Change Since Year Ago
Reserve Bank Credit			
U.S. Gov'ts and Agencies Owned Outright & RPs	126.087	+ 1.491	+ .740
Loans to Depository Inst.	1.145	+ .032	– 1.047
Float	3.826	+ .388	– 1.465
Total Reserve Bank Credit	141.355	+ 1.810	+ 3.882
Treasury Deposits with Federal Reserve Banks	2.832	– 1.094	– .537
Currency Outside Banks	119.846	– 1.767	+ 8.174
Member Bank Reserves:			
Required	39.760	+ .834	– 3.690
Excess (Deficiency)	.365	+ .195	– .177
Total Reserves Held	40.125	+ 1.029	– 3.867
Net Borrowed Reserves	.626	– .186	– .924
Gov'ts held for Foreign Acct. by F.R. Banks (End-of-Week)	94.084	+ .639	+12.824

Monetary Aggregates†		% Change Since Three Months Ago*	% Change Since Year Ago
M-1A	367.0	– 22.1‡	– 1.7‡
M-1B	418.5	+ 1.3‡	+ 6.4‡
M-2 (January '81)	1,683.0	+ 6.6	+ 9.7
L (November '80)	2,346.5	+ 11.7	+ 9.8

†Seasonally adjusted. * Seasonally adjusted annual rate. ‡Four-week moving average.

New York Money Market

Offering Rates 2/27/81	3 Months	6 Months	1 Year
‡U.S. Treasury Bills	14.63%	14.80%	14.16%
*Federal Agencies	14.50	14.82	14.76
*Project Notes—Taxfree (46% Taxable Equivalent)	11.02	11.76	13.06
Negotiable Time CDs Manufacturers Hanover	Rates By Arrangement		
*Secondary Market—Prime	15.00	14.75	

‡Finance Company Paper—Prime		‡* Bankers' Acceptances	
5- 14 days	15.05%	Mar.	14.80%
15- 29 days	15.13	Apr.	14.80
30- 59 days	14.50	May	14.80
60- 89 days	14.00	Jun.	14.80
90-179 days	13.75	Jul.	14.80
180-209 days	15.00	Aug.	14.65
210-270 days	12.00		

‡Industrial Paper—Prime		†Federal Funds Effective Rate	15.55%
30- 89 days	14.88%		
90-120 days	14.80		

‡Discount basis. * Subject to availability. † Estimated.

Selected Business Indicators

(All Dollar Figures in Billions)

	Latest Period or End of Period		Previous Period	Year Ago Period
Gross National Product (Current Dollars)*	4th Q'80	$ 2,732	$ 2,637	$ 2,496
Gross National Product (1972 Dollars)*	4th Q'80	$ 1,487	$ 1,472	$ 1,491
Percent Change, Annual Rate	4th Q'80	4.0%	2.4%	0.6%
Change in Consumer Prices (all urban consumers)*	Jan '81n	8.4%	13.2%	16.8%
Change in Producer Prices*	Jan '81	10.8%	6.0%	19.2%
Civilian Employment (Thousands of Persons)†	Jan '81	97,696	97,282	97,708
Unemployment as % of Civilian Labor Force†	Jan '81	7.4%	7.4%	6.2%
Personal Income*	Jan '81	$ 2,298	$ 2,277	$ 2,077
Leading Indicators Composite Index (1967=100)†	Jan '81n	135.8	136.4	134.7
Industrial Production Index (1967=100)†	Jan '81	151.8	150.9	152.7
Net Change in Consumer Installment Credit†	Dec '80	$ 1.62	$ 0.84	$ 2.03
U.S. Merchandise Trade Balance†	Dec '80	–$ 2.06	–$ 0.79	–$ 2.87
Plant and Equipment Expenditures*	1st Q'81	$310.59(a)	$297.30(a)	$291.89
Private Housing Starts (Thousands of Units)*	Jan '81	1,585	1,532	1,389
New Construction Expenditures*	Dec '80	$ 241.6	$ 231.6	$ 244.0
Total Business Inventories†	Dec '80	$ 457.0	$ 458.0	$ 426.8
Total Business Sales†	Dec '80	$ 332.2	$ 329.0	$ 302.1

*Seasonally adjusted annual rate. †Seasonally adjusted. n-Newly reported figure. a-Anticipated.

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had depreciated on a trade-weighted basis by about 7.5 per cent between early 1977 and late 1978 and then began to rise slowly. By last December, it was about back at the early 1977 level, and since that time it has strengthened even further.

Over the last 14 months, the dollar has appreciated five per cent on a trade-weighted basis, but within this average figure, wide individual disparities are hidden. For example, the dollar has appreciated by about 29 per cent against the German mark since January, 1980, but it has depreciated by over 11 per cent against the Japanese yen in the same period.

It takes a long time for changes in a country's exchange rate to be reflected in its trade position. Some of the benefits of earlier weakness of the dollar will continue to be felt in 1981. Capital exports will continue to be the primary beneficiary while consumer exports may already be feeling the pinch of the strong dollar.

. . . Will Be A Tough Act To Follow . . .

Although U.S. exports are expected to grow in volume terms in 1981, they will probably not reach the almost 18 per cent growth of 1980. With lower growth or recession in most of the industrial countries (which took 59 per cent of U.S. exports in dollar terms in 1979), U.S. trade growth will slacken. Specifically, the United Kingdom, which is our

Short Term Paper Outstanding

(Millions of Dollars)

	Latest Week	Change Since Week Ago	Change Since Year Ago
Negotiable Time CD's Weekly Reporting Banks			
Nationwide (2/11/81)	114,613	– 1,823	+22,017
New York City (2/11/81)	28,229	– 1,006	+ 8,013
Commercial Paper (2/11/81)	132,196	+ 2,070	+12,560

Bank Loans

(Millions of Dollars)

Commercial and Industrial Loans

Weekly Reporting Large Commercial Banks	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (2/11/81)	170,055	– 1,837	+ 9,762
New York City (2/11/81)	49,785	– 1,060	+ 1,414

Total Loans Gross Adjusted

	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (2/11/81)	423,165	– 3,587	+24,356
New York City (2/11/81)	99,562	– 1,425	+10,132

Financial Markets

	Friday 2/27/81	Change Since Week Ago	Change Since Year Ago
U.S. Governments, Closing Yields:			
90-Day Bills†	14.90%	+ .82	+ .40
180-Day Bills†	14.99	+ 1.57	– .11
Longest Bills†	14.46	+ 1.90	– .88
Recent Issues:			
13⅝s 1/31/83	14.14	+ .62	
13¼s 8/15/84	13.87	+ .65	
13s 11/15/90	13.42	+ .36	
12¾s 11/15/10	12.96	+ .45	
Municipals:			
Bond Buyer–20 Bond Index* (2/26/81)	10.27%	+ .05	+ 1.55
Blue List Total ($ Million)	$ 801	+ $ 86	+ $ 236
30-Day Visible Supply ($ Million)	$1,987	– $247	+ $ 410
Total	$2,788	– $161	+ $ 646
Corporates:			
Moody's Aa Composite (2/26/81)	14.07%	+ .05	+ 1.25
Money Mgr.–30-Day Supply ($ Million)	$3,688	– $859	+ $2,122
Stocks:			
Dow-Jones Averages:			
Industrials	974.58	+ 38.49	+ 111.44
Transportation	392.34	+ 13.16	+ 102.90
Utilities	106.43	– .84	– 3.25
65 Stocks	370.03	+ 11.44	+ 53.02
Standard and Poor's 500 Stocks	131.27	+ 4.69	+ 18.33
N.Y.S.E. Composite Index	75.13	+ 2.68	+ 10.18
N.Y.S.E. Avg. Daily Vol. for Week (000's)	48,722	+ 9,556	+ 7,764

* 46% Taxable equivalent 19.02%.

† Bond equivalent.

International Rates

EURODOLLAR DEPOSIT RATES (bid)	Friday 2/27/81	Week Ago
Overnight	15.25%	16.50%
1 month	15.88	16.13
3 month	16.69	16.25
6 month	16.81	16.25
1 year	16.25	15.50
EURODOLLAR BONDS		
Average Yield		
Medium Term (5 to 7 yrs.)	14.00%	13.70%
Long Term (7 to 15 yrs.)	13.80	13.50

FOREIGN EXCHANGE SPOT RATES

New York Opening (2/27/81)	U.S. $ Equivalent	Currency Per U.S. $
Belgium	.02874	34.80
Canada	.8326	1.2011
Denmark	.1500	6.6670
France	.1998	5.0050
Germany	.4689	2.1325
Italy	.0009708	1030.00
Japan	.004782	209.10
Mexico	.04243	23.57
Netherlands	.4246	2.3550
Switzerland	.5089	1.9650
U.K.	2.1940	.4558

largest trading partner in Europe, expects another year of economic decline, which could reduce demand for our exports. West Germany, too, expects 1981 to be a recession year and further anticipates a high current account deficit which, by depressing the exchange rate of the mark against the dollar, will discourage imports. A similar outlook applies to Italy as well. Other major importers of U.S. products—France, Switzerland, the Netherlands, among others—also will probably have lower import requirements reflecting a slower pace of economic activity.

The non-oil LDCs which took 29 per cent of U.S. exports in 1979 are expected to cut imports sharply as they struggle to cope with ever-higher oil import costs and to service their already high external debt.

. . . But There Are Bright Spots

But there are significant exceptions to an otherwise dismal export picture. Japan, which took almost 10 per cent of all U.S. exports (in dollar terms) in 1979, will still be a major customer in 1981. Japan expects to grow at about the same rate this year as last. Canada expects to grow modestly in 1981 after declining last year. In 1979 Canada took over 18 per cent of U.S. exports under special trade agreements. The OPEC nations will also continue to import substantial amounts from the U.S., and Mexico will spend a large portion of its oil income on imports from the U.S. In 1979 Mexico took over five per cent of all U.S. exports.

Should any of the other major grain producers experience a poor harvest in 1981, U.S. agricultural exports would expand their already large role in our export picture. As the nations of Western Europe begin to reaccelerate their economic growth in late 1981, they will again begin to pull in imports from the U.S., but the effects of this will probably not be felt until 1982, if then. Nonetheless, on balance, 1981 will be a modestly successful year for American exporters. ■

THE CORPORATE TRUSTEE ENDURANCE TEST.

DURABILITY:
When picking a corporate trustee for a bond issue—whether you're a corporation or municipality—pick carefully. Because you're going to have to live with that trustee a long time.

Manufacturers Hanover is one of the nation's largest and most experienced bond trustees. We have the expertise to anticipate problems before you even close the issue. By identifying trouble spots early, everything will run more smoothly. Year after year.

SUREFOOTEDNESS:
As corporate trustee, Manufacturers Hanover moves quickly in handling the day-to-day administrative tasks of overseeing a bond issue.

We consistently meet the NYSE and SEC requirements for the prompt transfer of certificates from seller to buyer. With TRANSIFAC,℠ our electronic nerve center, each entry of data is "key verified"—entered twice by two different operators and then compared automatically by computer. It's the most accurate bondholder record-keeping system available.

ADAPTABILITY:
If a new or unusual change suddenly affects your company, Manufacturers Hanover reacts quickly in interpreting and analyzing indenture provisions. We know the alternate ways of handling many situations to help ensure the continued workability of the issue.

SENSE OF DIRECTION:
Our operations center is located in the heart of Wall Street, where most security trades take place—a location that facilitates the issuance and transfer of certificates for both you and your bondholders.

DETERMINATION:
No corporate trustee is more committed to service than Manufacturers Hanover. In addition to your own individual account officer, a backup officer—familiar with the requirements of your account—is ready to help you. Anytime.

If you want a corporate trustee who can meet every test, talk to Manufacturers Hanover. For more information on our whole range of indenture trusteeship services, call Joseph Unger, Vice President, at (212) 623-7542. Or write us at 40 Wall Street, New York, N.Y. 10015.

IF YOUR TRUSTEE CAN'T PASS IT, TALK TO MANUFACTURERS HANOVER.